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AUTOMOTIVE INDUSTRIES

NUMBER ONE IN THE INDUSTRY SINCE 1895

GM's Smith
Ford's Caldwell
Chrysler's Greenwald
AMC's Tippett

'85 Analyst Survey
Who Says How Many

First Peek:
The New Fiat/
Peugeot Engine

MIT Study:
Auto Scenario
Shifts Gears

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In January, *AI* surveys the world's production engineers, managers, and technicians, asking the question: who builds cars best?

QUOTABLE

"We want to find our own way to become the BMW of Japan, because when I worked for Max Hoffmann, he always told me 'One of these days, the emblem will tell the story.' "—Erwin Sedlmayer, manager of product planning, Subaru of America, talking about status-symbol possibilities for Subaru's six-star emblem by 1990.

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ANALYSTS FORESEE LUXURY CAR UPSWING

As the US enters its third year of economic recovery, major automotive analysts forecast a slight increase in passenger car and light truck sales, with a trend toward luxury cars. Japanese import restraints will probably be lifted but continued in spirit.

by Jennifer G. Mintzer

The picture looks rosey for passenger car and light trucks sales in '85, although some 25% of the market is forecast to go to imports. Since our last survey of auto analysts in the June '84 issue of *AI* (see "Analysts See Continued Upswing & Probable Strike," p. 84), the economy has continued to improve and so have the figures.

For calendar year '85 the prognosis is for further recovery. No great leaps in the figures, mind you, but the analysts say the strong economy has granted the general populace a feeling of well-being plus more disposable income which they are expected to spend on bigger and more luxurious cars.

'85: Year For Luxury

Most of the economists agree: 1985 will be the year for the luxury car. Says Jean Claude Gruet of Dean Witter Reynolds, "...when the economy is strong and people have more disposable income, they tend to up the [model] mix. The overall consumer tends to buy larger cars."

Manufacturers Hanover's senior vp Irwin Kellner says, "The trend seems to be going that way [luxury cars]. And for the overall economy 1985 should be another year of expansion, so that will further enhance the likelihood that luxury car sales will improve."

John Maher, auto analyst at Citicorp agrees, "If you're thinking in terms of large cars, which is typically how the segmentation is done, I see them [luxury cars] improving. Of course, as we've seen over time, as the economy improves and people's own perceptions of their well being improves, they tend to load up on the luxury items, the amenities that make driving a bit more comfortable."

Plus, the younger generation is making its move into this segment of the market. Explains Thomas Kevin Swift, chief economist at Predicasts, "We have a lot of discussion now of

	Citicorp Information Services	Manufacturers Hanover Trust Co.	Arthur D. Little	Dean Witter Reynolds	JD Power & Assoc.	Chase Econometrics	Merrill Lynch	Prescott Ball & Turbin	Predicasts	
PASSENGER CARS										
1985 US Production	8.0	8.5	8.0	8.0	—	8.6	7.6	8.0	7.85	
1985 Sales, US & Imports	10.8	10.0	11.0	—	10.9	10.4	10.4	10.95	10.5	
LIGHT TRUCKS										
1985 US Production	3.6	—	3.4	3.25	—	3.5	2.9	3.4	2.65	
1985 Sales, US & Imports	4.1	—	4.0	—	4.35	3.6	4.1	4.1	3.35	
Will the Japanese Voluntary Import Restraint Agreement be Continued in Some Form Next Year?	No	Yes	Yes	—	Yes	Yes	Yes	Yes	Yes	

the so-called Yuppy, the white collar professional in the post WW-II baby boom generation. They're starting to trade their cars up to a higher quality with more classic style, taste and design. They're starting to fall over into the luxury car area. One of the things is that they're typically purchasing foreign automobiles like Volvo, Saab, BMW, Mercedes, some of the higher priced Datsuns and Toyotas, and Peugeot."

That's why Predicasts forecasts import penetration to run around 25%. Although Predicasts has revised its June '84 forecasts for passenger car sales down slightly, Swift says, "What my current forecast calls for is imports staying at roughly the same levels, but the decline would come largely out of the domestic shipments. The West is now the marginal producer."

Restraints Go Self-Imposed

JD Power & Associates' industry analyst Chris Cedergren puts import share of the market higher at 27-30%. "This is considering that import restraints are lifted or increased substantially. We're going on the assumption that they'll be raised from 1.85 million units to anywhere from 2.3 to 2.69 million units per year, or lifted completely."

Tom O'Grady of Chase Econometrics asserts the import restraints will be only slightly eased, "Import restraints will either be continued with a slight increase in the number of cars allowed to be imported or they'll be self-imposed by the Japanese themselves. They'll moderate it in some way. There will not be a true open market."

Art Davis, auto analyst at Prescott, Ball & Turben, sees a purely voluntary agreement, "...in which there would be some unwritten restriction which would hold shipments down. This year is 1.92 million units. We'd expect no more than 300,000 more next year—in the 2.1 to 2.2 million unit range—without import controls."

Seconding this opinion is Phillip Fricke of Goldman Sachs Research, "There are two ways the restraints could be continued. They could be eased or eliminated. The odds are more in favor of elimination, but elimination of the quota per se. It could only come if the Japanese will agree not to take advantage. So the agreement would continue, but in a more subtle way."

Arthur D. Little's Nancy Gardella says, "I think import restraints will be continued in spirit by the Japanese because they realize it would not be to their advantage to flood the market with Japanese models at this point. Although politically the actual voluntary restraint agreement may be taken off, I think that we'll see some form of voluntary restraints carried out just in spirit."

	Goldman Sachs	Automotive Information Council	Average
	8.35 11.0	8.2 10.8	8.11 10.67
	— —	2.5 3.4	3.15 3.87
	Yes	Yes	Yes

Mini Market For Mini-Car?

Since most of the economists feel gas prices will remain at current levels, how large a market do they foresee for the mini-car—a vehicle less that 150 in. (*381 cm*) in length and costing about $3500-5000?

"I think that's going to appeal to a very specific market class, to those just looking for a short run commuter vehicle that gets good mileage," says Citicorp's Maher. "But with gasoline prices as low as they are and not likely to rise very much in the near term, I'm not quite sure whether that's going to be a big growth market."

Agreeing is Hanover's Kellner, "There's always a theoretical market for the mini-car, but we think that a year such as '85, the third year of an economic recovery, where the general populace has a feeling of well-being, would not be conducive to too many sales in the mini-car area."

Predicasts' Swift calls the issue, "...similar to the old notion that what we need is a good 5¢ cigar. I have to say the way the economy is right now, with disposable income levels where they're at and employment at a record high, that the market is no good. I think there may be some niches in the market—college students, lower income households, etc. But I don't think it would be that large of a market."

The lower income segment is precisely where JD Power's Cedergren sees the mini-car filling a need. "We are also forecasting the mini-car market to be an exploding market in the late '80s," says Cedergren. "If the mini-cars are brought in and sold for anywhere between $3500 and $5000, that would enable people who previously could only buy a used car to gain entrance into the new car market."

Mini-Vans Boon For Truck Market

Although Chase Econometrics' O'Grady forecasts light truck sales to go down slightly in '85, he says, "The increase in mini-van sales will help light truck sales."

Davis of Prescott asserts, "They [mini-vans] will add to the growth of the whole market."

In fact, according to JD Power's Cedergren, "It [the mini-van] will shoot the truck market to new record heights. The figure I gave you for light trucks of 4.35 million sales—that's a record year—and it's felt most of the increase is mini-vans. Mini-vans in '85 will account for about 15% of the truck market. Considering it's a newly emerging market, it's pretty substantial." ■

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Target Marketing And Niche Players

by Thomas F. O'Grady

Today, the auto industry is target-marketing and even designing cars for particular groups of customers, or niches. And these cars are not only of better quality, but there's also a much broader selection of them, allowing for a growing diversity in consumer tastes. Is this the result of increased and improved planning or the competitive environment?

The planning process has undergone substantial refinement over the last few years, and today, "target-marketing" is the buzzword. A few years back, whether used in designing and planning new products or marketing existing ones, information about consumers was summarized into average or percent share.

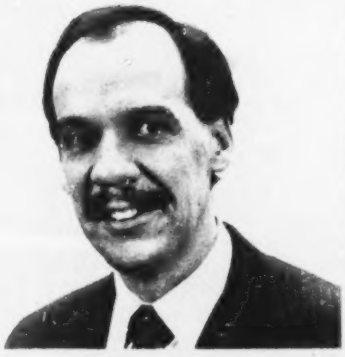
Companies or divisions aimed at the largest group of new car buyers and tracked the median or mean age, percent married, percent male, etc. Since then, there has been an evolution into special techniques, which has developed into two specialized areas: demographics and psychographics (See Sept. '84, "Detroit Goes Psycho!" p. 44). Each of these is touted for its ability to "target-market" products.

Target Marketing

Demographic analysis broadens the view of the market, and auto companies aim for the singles, the upper income earners, the baby boom group, and others. The distribution of buyers can also be examined.

Psychographics became attractive to the automakers as it became increasingly apparent that the auto market was very segmented. As competition in the auto industry picked up, market research firms were able to convince automakers of the importance of consumer attitudes and behavior.

Indeed, both demographics and psychographics have been around for a long time. In that case, why are they only recent innovations in Detroit? The importance of demographics was realized after the Japanese automakers successfully penetrated the domestic market. In retrospect, the American automakers realized that, while they were ignoring the younger, low end of the market, the Japanese were building a strong base in the US.



Thomas F. O'Grady is the director of the Chase Econometrics Automotive Service. He provides market research and market projections to leading companies worldwide.

Now, further niches are being carved out as the automakers are dividing buyers into groups such as yuppies or looking into psychographic profiles. However, all this appears to be reactive to the penetration of so many automakers into the US market.

These techniques have been around for a long time and are only now being used to better understand the consumer groups.

US MARKET SHARES 1984 MODEL YEAR

Company	Market Share	Sales (000)
AMC SHARE	1.96%	$ 201,275
JAGUAR SHARE	0.17%	$ 17,242
BMW SHARE	0.66%	$ 67,860
CHRYSLER SHARE	9.97%	$1,021,798
FORD SHARE	18.61%	$1,906,806
GM SHARE	45.56%	$4,667,130
HONDA U.S. SHARE	1.14%	$ 117,180
HONDA SHARE	3.57%	$ 365,969
ISUZU SHARE	0.18%	$ 17,973
MERCEDES SHARE	0.73%	$ 74,798
MITSUBISHI SHARE	0.37%	$ 38,246
MAZDA SHARE	1.64%	$ 168,475
NISSAN SHARE	4.66%	$ 477,729
SAAB SHARE	0.31%	$ 31,604
SUBARU SHARE	1.53%	$ 156,765
TOYOTA SHARE	5.10%	$ 522,837
VW U.S. SHARE	0.81%	$ 83,084
VW (POR, AUD) SHARE	1.67%	$ 170,768
VOLVO SHARE	0.98%	$ 100,006

Niche Players Lead Big Guns

As the accompanying chart indicates, the ability to be a niche player in the automotive market allows for a large number of companies and products.

Today there are indeed more companies fitting the needs of special groups of consumers. The pattern appears to be that the smaller company tests and develops new markets. Then, if that new market attracts sufficient volume, the larger manufacturers move in and make their presence felt.

The next stage in the development of the planning process will witness the integration of special techniques and data bases. Demographic, psychographic, and more sophisticated market research techniques will be used on integrated data sets. And, as a result, response to specialized consumer needs will be even more apparent.

Already, the manufacturers are responding to the increased information they receive by target-marketing while at the same time, segmenting the market. Although this sounds impressive, in essence, as long as the market is divided into groups, there will be gaps, and those gaps will be left for the niche players to fill.

The benefits to the marketplace today include more product, more custom-tailored products with increased competition, and also lower prices.

The good news is that the industry will continue to make room for all.

The small companies with small shares are not in real danger. They usually also have non-North American markets and they operate efficiently enough to be profitable even at low volumes. They are obviously supplying what many consumers need.

And, with import restraints on the Japanese and capacity constraints on many of the European automakers, the size of the market for most of them is no doubt larger than the chart shows. And, as long as the major manufacturers go after groups of consumers, i.e., target market, they will undoubtedly leave market gaps for the niche players. ■